FDIC State Profile

Spring 2005

Colorado

Job growth catapults Colorado back into the top ten for the first time since mid-2001.

- Colorado's employment growth rate now exceeds the nation at year-end 2004 with the U.S. and Colorado growing at 1.6 and 2.1 percent, respectively (See Chart 1). This makes Colorado the tenth fastest growing state in the nation. Colorado ranked 45 just one year ago, underscoring the state's remarkable turnaround.
- Total nonfarm employment stood at nearly 2.2 million in fourth quarter 2004, about 49,000 less than the state's previous quarterly peak established in first quarter 2001. With job growth forecast to accelerate this year, the state may establish a new quarterly employment peak by the end of 2005.

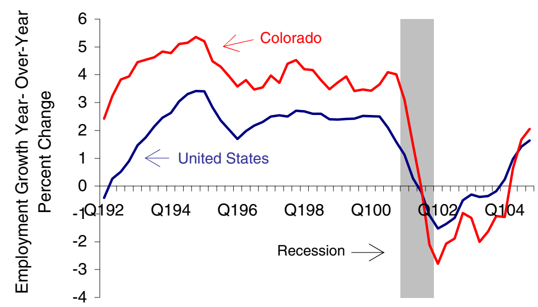
All major employment sectors, except information, were reporting job gains as of year-end 2004.

- The natural resources and mining sector reported the fastest employment growth rate within the state at almost 13 percent from year-end 2003 largely because of strong oil prices.
- The second fastest growing sector was the professional and business services sector at 4.4 percent. A stronger U.S. and global economy drove the growth.

Budget cuts leave agricultural lenders and producers with worries.

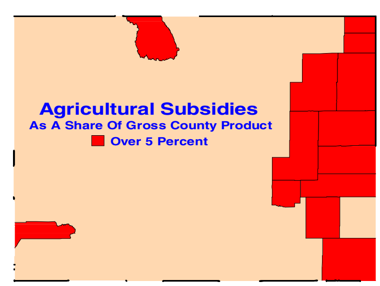
- The proposed 2006 federal budget is seeking a reduction in USDA spending of 9.6 percent—at least $587 million next year and $5.7 billion over the next 10 years.[1]
- A change in the structure and amount of agricultural subsidies will likely cause financial strain on producers who have long depended on this income. The counties in Colorado with a large dependency[2] on agricultural subsidies are illustrated geographically (See Map 1).

Chart 1: Job Growth in Colorado Now Ranks In The Top Ten



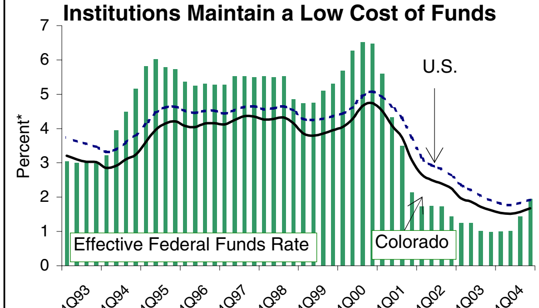
Source: Bureau of Labor Statistics (Haver Analytics)

Map 1: Eastern Colorado's Dependence on Agriculture Is Evident



Souce: USDA, Economy.com and author's calculations

Chart 2: Noninterest Deposits Help Colorado Institutions Maintain a Low Cost of Funds



Note: Cost of funds is median quarterly annualized interest expense to average interest-bearing liabilities. The effective Federal Funds Rate is annualized based on a 360 day year.
Source: FDIC and Federal Reserve, Bank and Thrift Call Reports.

[1] Reynolds, John "Bush budget plan puts farm aid on chopping block," Lubbock Online.com, February 5, 2005.
[2] The average share of a county's gross product (CDP) from agricultural subsidies is well below 1 percent (0.18). For our analysis, a "large dependency" is a county where subsidies exceed 5 percent of CDP.

Higher crude prices provide a significant boost to the state's energy related sectors.

- Rising oil prices in fourth quarter 2004 led to double-digit year-over-year employment gains in Colorado's natural resources and mining sector, a sharp acceleration from the prior quarter and the fastest growing among all 50 states.
- Crude oil prices continued their volatility. In March 2005, the price per barrel surpassed $56 (West Texas Intermediate crude), establishing a new all-time high, supported by colder weather and concerns over tighter crude oil supplies.
- The state's rotary rig count in February 2005 was the highest recorded this decade, according to Baker Hughes. As a result, employment growth is expected to remain robust in the natural resources and mining sector throughout the year.

Tourism will be a factor in Colorado's employment growth.

- "Let it snow" was a theme for the winter and spring ski season. Improved snow conditions this season have helped Colorado's leisure and hospitality sector grow 1.9 percent, including growth in revenues for Colorado's casino and hotel owners.

Colorado insured institutions post mixed results for 2004.

- Colorado headquartered banks and thrifts reported a slightly higher median pre-tax and after-tax return on asset ratios, but the trend of compressing net interest margins kept these values among the lowest in a decade. Margin compression slowed for many banks in 2004, but a changing interest rate environment and strong competitive factors, particularly in the large metro markets, will likely keep this an ongoing challenge.
- The positive trends of relatively low cost of funds and lower provision expenses may be difficult to match in future quarters. However, credit quality for Colorado institutions, like the nation, continues to improve as past-due and charge-off rates remain near ten-year lows.

Low funding costs continue to benefit Colorado insured institution margins.

- The median cost of funds for Colorado insured institutions was 1.67 for the fourth quarter of 2004, ranking in the lowest quartile among other states (See Chart 2).
- One reason for this advantage is that Colorado institutions tend to hold higher levels of noninterest bearing deposits. Additionally, 44 percent of the state's insured institutions reside in rural areas, which often have fewer market competitors and provide bankers with greater influence in determining interest rates for both loan and deposit products. These factors may be positive aspects for bank and thrift profitability should short-term interest rates continue to rise modestly.

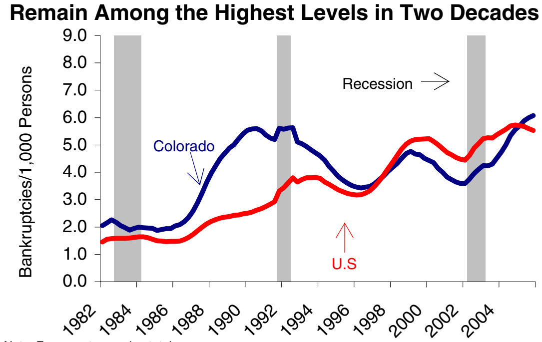
Elevated consumer bankruptcy rates highlight the vulnerability of personal balance sheets.

- Personal bankruptcy rates continued to hover near record levels, rising 69 percent from the lows experienced just prior to the last recession (See Chart 3).
- While consumer past-due loan rates among Colorado insured institutions have fallen over the past several years, the upward trend in consumer debt service burdens and bankruptcy filings suggests that consumer credit quality is an area to watch going forward.

Despite weakness in commercial real estate (CRE) markets, lenders have not experienced deterioration in their CRE portfolios.[3]

- The Denver MSA office vacancy rate was virtually unchanged at 19.8 percent for the quarter ending December 31, 2004. According to *PPR Fundamentals*, it will take several years for the Denver office market to return to equilibrium. As the local economy improves, net absorption is expected to strengthen. At the same time, slowing construction activity suggests rents and occupancy should improve going forward.
- Despite general weakness in the CRE sector, Colorado insured institutions have increased CRE exposure to the highest level in a decade. Even with this heightened exposure, CRE loan past-due and charge-off rates have remained stable over the past five years.

Chart 3: Colorado Per Capita Bankruptcy Rates Remain Among the Highest Levels in Two Decades



Note: Four quarter moving total
Source: Administrative Office of the US Courts/Haver Analytics

[3] Commercial real estate loans are defined as non-residential real estate, multi-family, and construction and development loans.

Colorado at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.1%	-1.0%	-1.0%	-2.1%	4.0%
Manufacturing (7%)	0.9%	-5.5%	-6.5%	-9.6%	1.4%
Other (non-manufacturing) Goods-Producing (8%)	3.9%	-4.3%	-4.1%	-1.0%	8.7%
Private Service-Producing (69%)	2.0%	-0.1%	-0.9%	-2.4%	4.2%
Government (16%)	2.3%	-0.9%	2.9%	2.9%	2.3%
Unemployment Rate (% of labor force)	5.4	6.1	5.9	5.5	2.7

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	3.1%	1.1%	2.8%	10.2%
Single-Family Home Permits	-5.0%	6.3%	16.4%	-23.7%	5.9%
Multifamily Building Permits	-13.1%	-39.8%	-4.3%	-20.0%	28.9%
Existing Home Sales	6.9%	13.8%	0.7%	-12.7%	17.9%
Home Price Index	4.2%	2.7%	4.5%	8.0%	11.5%
Bankruptcy Filings per 1000 people (quarterly level)	1.43	1.39	1.24	1.02	0.89

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	177	180	179	186	191
Total Assets (in millions)	39,397	35,347	50,356	50,884	47,389
New Institutions (# < 3 years)	11	12	9	9	9
Subchapter S Institutions	44	41	38	34	30

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.27	1.44	1.80	1.62	1.34
ALLL/Total Loans (median %)	1.19	1.23	1.25	1.22	1.13
ALLL/Noncurrent Loans (median multiple)	2.08	2.53	2.27	2.30	3.34
Net Loan Losses / Total Loans (median %)	0.08	0.12	0.12	0.09	0.08

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	8.55	8.30	8.18	8.25	8.48
Return on Assets (median %)	1.13	1.05	1.24	1.31	1.30
Pretax Return on Assets (median %)	1.46	1.47	1.65	1.76	1.83
Net Interest Margin (median %)	4.40	4.35	4.65	4.78	5.09
Yield on Earning Assets (median %)	5.71	5.90	6.69	8.06	8.70
Cost of Funding Earning Assets (median %)	1.23	1.41	1.88	3.07	3.60
Provisions to Avg. Assets (median %)	0.10	0.13	0.15	0.16	0.13
Noninterest Income to Avg. Assets (median %)	0.84	0.83	0.85	0.86	0.85
Overhead to Avg. Assets (median %)	3.28	3.27	3.39	3.51	3.47

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	64.7	60.9	61.2	63.3	64.0
Noncore Funding to Assets (median %)	15.9	15.7	14.9	15.7	14.6
Long-term Assets to Assets (median %, call filers)	13.0	15.0	14.5	12.7	12.4
Brokered Deposits (number of institutions)	40	33	23	24	26
Brokered Deposits to Assets (median % for those above)	5.4	4.0	4.3	4.3	3.4

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	64.5	63.1	74.9	81.6	82.4
Commercial Real Estate	249.0	203.9	202.6	190.6	171.5
Construction & Development	59.1	49.5	50.2	51.8	50.7
Multifamily Residential Real Estate	4.7	5.0	3.5	3.0	4.2
Nonresidential Real Estate	144.9	121.2	109.3	106.6	95.4
Residential Real Estate	135.3	138.5	142.3	150.0	145.5
Consumer	19.6	26.8	31.1	37.3	44.0
Agriculture	8.8	9.3	6.9	10.4	10.6

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)
Denver-Aurora, CO	96	35,876
Boulder, CO	29	4,895
Colorado Springs, CO	42	4,735
Fort Collins-Loveland, CO	27	3,447
Greeley, CO	27	2,253

Asset Distribution	Institutions
< $250 mil.	129 (72.9%)
$250 mil. to $1 bil.	40 (22.6%)
$1 bil. to $10 bil.	8 (4.5%)
> $10 bil.	0 (0%)